

Summary of Independent Consultant's Report

Final Power Purchase Agreement Between Delmarva Power and Bluewater Wind Delaware LLC

PSC Docket No. 06-241

Meeting of Delaware State Agencies—July 8, 2008

Prepared by:
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Overview: Review of Power Purchase Agreement (PPA)

- ◆ Major terms of Bluewater/Delmarva PPA (June 23, 2008)
 - Comparison to Proposed December 2007 PPA (Draft PPA)
 - Relation to Senate Bill 328
- ◆ Economic evaluation
- ◆ PPA terms and conditions
- ◆ Policy and contract management issues
- ◆ Conclusions

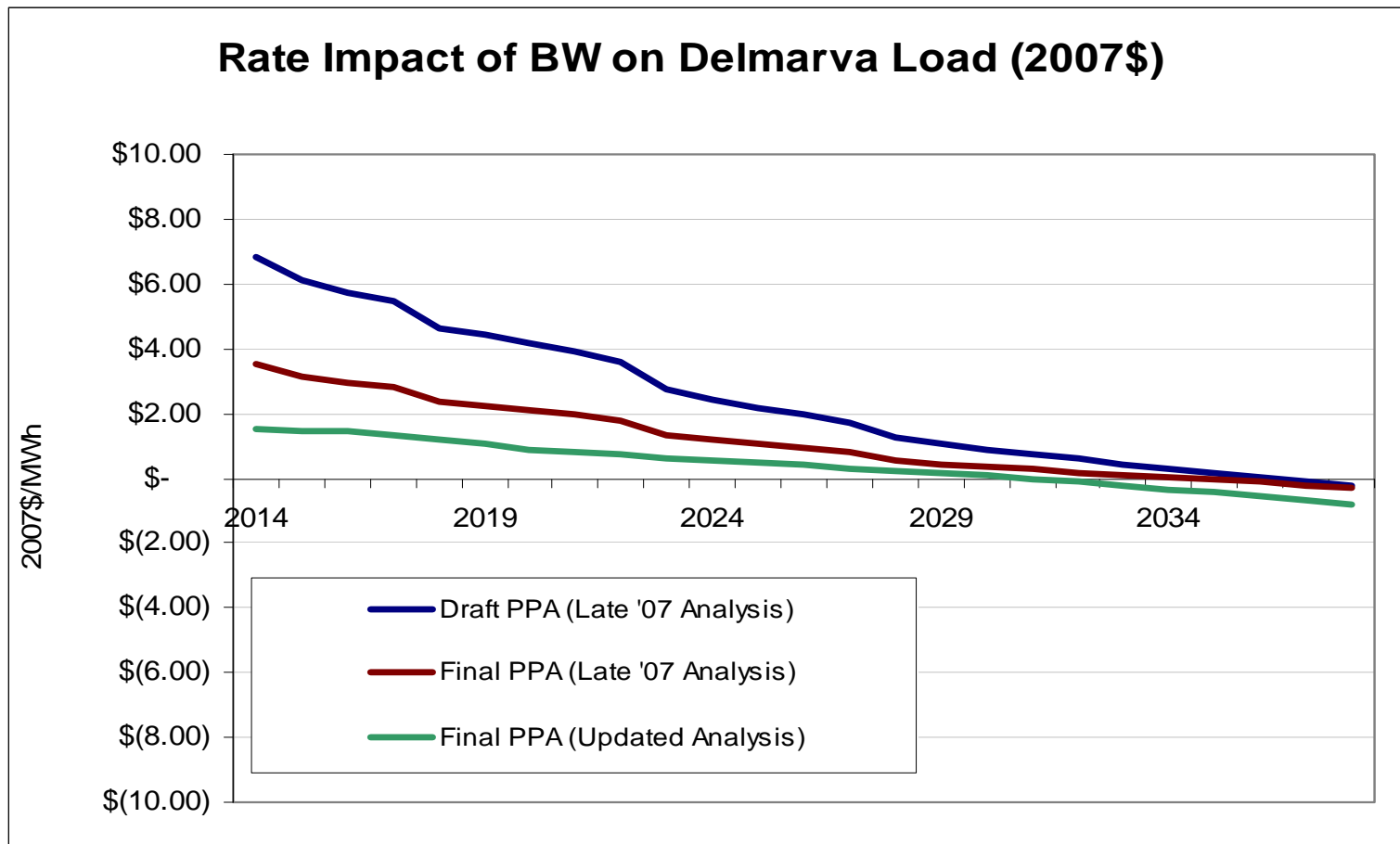
Major Terms and Conditions

- ◆ Smaller size:
 - 50% reduction
 - Energy/RECs/capacity from 200 MW, rather than energy/RECs/capacity from 450 MW project with 300 MWh/hour cap
 - Estimated energy/REC purchase—559 GWh/year compared to 1,106 GWh/year
- ◆ Renewable Energy Credits (RECs) and Senate Bill 328:
 - REC price reduced from \$19.75 (2007\$) to \$15.32 (2007\$)--\$100 million (nominal \$)
 - 350% credit for DE RPS (28.6% of RECs counts for 100%, Bluewater has 400,000 RECs/year to sell to market)
 - PPA costs recovered through charge/(credit) to Delmarva DE distribution customers
- ◆ Bluewater: project size flexibility; termination right by June 23, 2010
- ◆ Most favored nations clause
- ◆ Delmarva agrees not to challenge approval of PPA

Economic Analysis—Ratepayer Impacts

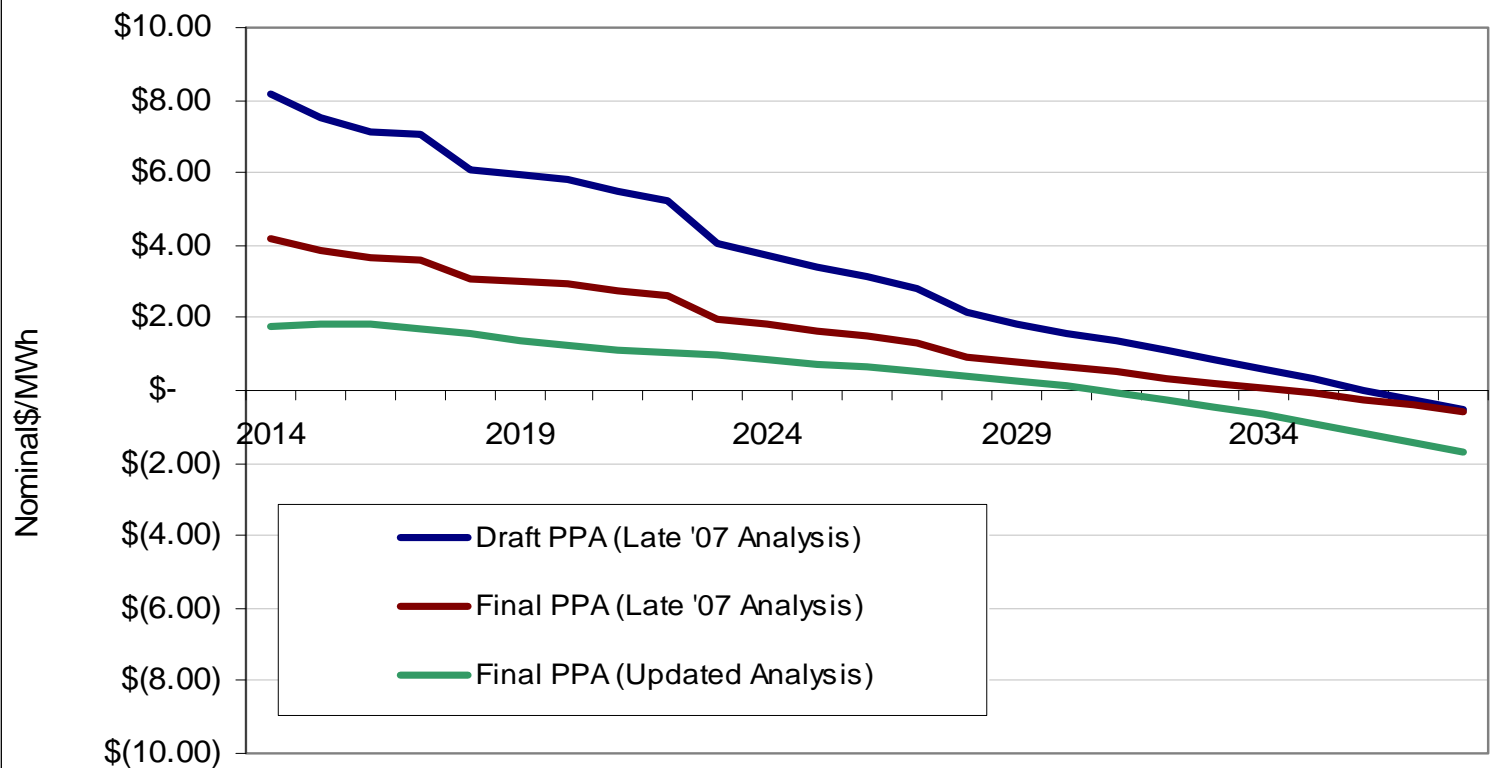
- ◆ Real levelized cost impact on distribution customers:
\$.70/MWh over 25-year PPA term (2007\$)
 - Initial impact (2014): \$1.50/MWh (2007\$); \$1.79/MWh (nominal \$)
 - Same as \$/month for residential customers using 1,000 kWh/month
- ◆ Comparison to Draft PPA (Dec. 2007)
 - SOS customers:
 - \$6.46/MWh—over PPA term
 - Initial impact: \$13.10/MWh (2007\$); \$15.57 (nominal \$)
 - Distribution customers
 - \$3.37/MWh—over PPA term
 - (\$2.54/MWh, if distribution load projections provided in December 2007 did not erroneously exclude customers that buy power from competitive retail suppliers)
- ◆ Focus: evaluation of Final PPA under updated assumptions

Rate Impacts Over Time—2007\$



Rate Impacts Over Time—Nominal \$

Rate Impact of BW on Delmarva Load (Nominal\$)



Reasons for Reduced Customer Bill Impacts

- ◆ Smaller size –50% less energy and RECs
- ◆ Larger customer base to spread net costs
- ◆ Lower REC contract prices
- ◆ Higher forecasted market energy prices
 - Natural gas prices (updated ICF reference case)
 - Carbon dioxide allowance costs (updated ICF reference case)
- ◆ No imputed debt
 - Legislative recovery mechanism
 - Revised Standard & Poor's guidance on proxy capacity for wind
 - Smaller contract size
- ◆ Sensitivity analyses: bill impacts vary with assumptions—high natural gas prices (130% of reference case) result in small positive bill impact

PPA Terms and Conditions

- ◆ Most favored customer pricing clause
- ◆ Bluewater termination right
- ◆ Milestones, liquidated damages, security
- ◆ Incorporation of Arbitrator's rulings
- ◆ Conclusion

Policy and Contract Management Issues

- ◆ Importance of Senate Bill 328—passed unanimously
- ◆ Customers: small hedge value—small risks and costs
- ◆ Viability: challenge for Bluewater; “walk away” provision
- ◆ Climate change: pioneering effort for offshore wind
- ◆ DE RPS: 350% credit multiplier means 3-4% less renewable energy needs to be produced to meet DE RPS requirements if project is built
 - Direct impact on REC market and renewable project investors
 - Indirect impact regarding future investor reliance on RPS
- ◆ Contract management: feasible consistent with customer choice and wholesale SOS procurement

Conclusions

- ◆ Final PPA substantially reduces projected above-market costs and customer impacts from Draft PPA
- ◆ PPA is acceptable to both Bluewater and Delmarva
- ◆ Unanimous support of Legislature and Governor: Senate Bill 328
- ◆ Positive contribution to mitigating climate change
- ◆ Potential unintended consequences—RPS credit multiplier:
 - Adverse impact on REC market?—moderated in context of regional market
 - Concerns about RPS dilution—could be mitigated through statements/actions of DE legislators/state officials opposing future dilution, and/or supporting strengthening, of RPS
- ◆ Approval could lead to
 - Developing wind energy offshore of Delaware
 - Pioneering offshore wind in North America